

FDIC State Profile

Summer 2005

Massachusetts

Employment has grown modestly this year; transformation to a “service” economy continues.

- Through first quarter 2005, manufacturing employment eased slightly, while construction employment advanced marginally. Employment rose in most sectors, but declined in the information services industry. On a longer term basis, Massachusetts has been slow to add jobs. Total nonagricultural employment in first quarter 2005 was below levels five years earlier and only about 5 percent higher than in 1990 (See Chart 1).
- Throughout New England, as in most of the country, the manufacturing job sector continues to decline. As of the first quarter, the Massachusetts manufacturing sector was slightly less than two-thirds of the size it was in early 1990, representing a loss of 185,000 jobs.
- Growth of service jobs has been moderate. Professional and business services grew significantly in the 1990s, especially during the second half of the decade. Losses during the first half of this decade have reversed some of this growth. Nevertheless, the net gain of 30 percent in this sector since the early 1990s remains impressive. Employment growth in other service sectors, however, has been weak, largely owing to the lack of growth in information services.

Massachusetts residents have the second highest personal income per capita in the country.

- Despite slow growth in employment, Massachusetts residents trailed only Connecticut in terms of national rankings of personal income per capita as of 2004.
- The 2001 recession resulted in reduced wages and salaries for Massachusetts workers in manufacturing and construction and, to a much lesser extent, in services (See Chart 2). Over the past two years, real wages and salaries in all sectors other than construction have improved as the economy strengthened.

House price appreciation remains significant in Massachusetts.

- During the past five years housing prices have risen an impressive 68 percent. However, the cyclical nature of

Chart 1: Growth in Construction and Service Jobs Offset Large Decline in Manufacturing

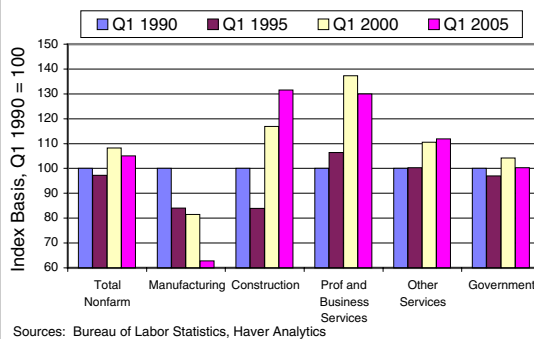


Chart 2: Most Wages per Employee Rise But Construction Wages Stagnate

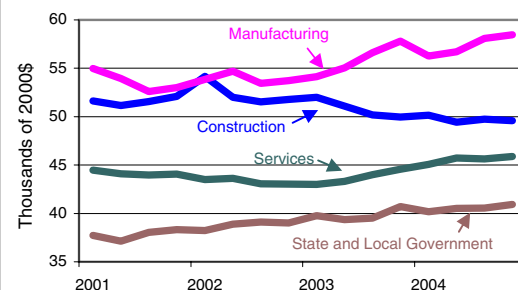
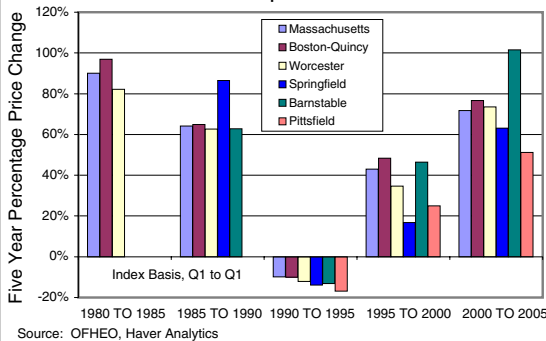


Chart 3: House Price Appreciation Very Strong But Not Unprecedented



the housing market is clearly shown in the changing price performance over the past 25 years (See Chart 3). The recent robust rate of price appreciation may be challenged by rising mortgage rates in the future.

- Overall, rates of price appreciation across the state's metropolitan areas have been consistent over this five-year period. The exceptions center on **Cape Cod**, where **Barnstable** was stronger than the statewide average, and in the western half of the state, where **Springfield** and **Pittsfield** were weaker.
- Over the past year, the rate of appreciation was strong throughout the state. While **Boston's** northern suburbs lagged the entire region, they still enjoyed healthy growth of between 9 and 10 percent (See Map 1). A recent study by the FDIC identified 55 "boom" markets nationwide including the four metro regions outlined in red on the map¹.
- The price appreciation in the **Providence-Fall River-New Bedford-Warwick** metropolitan area, spanning all of Rhode Island and portions of southeastern Massachusetts, is feeding off the strength in the more expensive Boston market, as families accept longer commutes to find affordable homes. The Barnstable market, on the other hand, is driven more by second home and retirement seekers, although parts of Cape Cod are also seeing increases in working professionals.

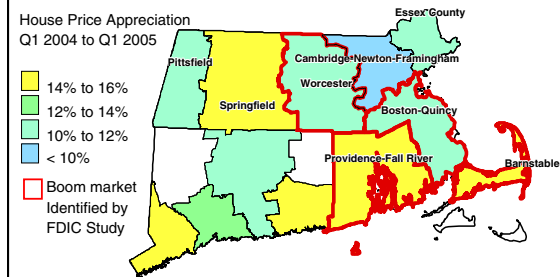
Massachusetts insured institutions report lower residential loan delinquencies than other lenders.

- Loan quality overall has improved since the New England economy began to recover late in 1992 and into 1993. Delinquent residential (1-4 family) loans at Massachusetts' insured institutions remain near historic lows and were less than 1 percent as of first quarter 2005 (See Chart 4).
- Residential loans issued by the Department of Veterans Affairs (VA) and the Federal Housing Administration (FHA) nationally have not exhibited the improvement in loan quality that Massachusetts insured institutions have shown. VA loans remain near past-due levels reported in early 1991, while FHA past-due loans have increased over time. The national delinquency level of the relatively new subprime loans is also well above Massachusetts delinquency rates.

Earnings affected as gains on security sales decline.

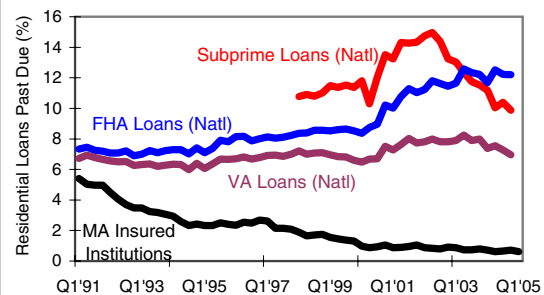
- Massachusetts community institutions² continue to be profitable and showed a small rebound in net interest margins as interest rates began to increase late in 2004, having a positive effect on asset yields. Gains on the sale of securities declined in first quarter 2005 after supporting earnings throughout 2004 (See Table 1).

Map 1: House Prices Grew at a Double-Digit Pace in All But One Massachusetts Metro



Sources: OFHEO, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005

Chart 4: Insured Institutions Report Lower Residential Real Estate Loan Delinquencies



Note: National data seasonally adjusted
Sources: FDIC, Mortgage Bankers Association, Haver Analytics

Table 1: Earnings Hampered by Declines in Gains on Security Sales and Increased Provision Expenses

Percentage of Average Assets	First Quarter		Basis Point Change
	2004	2005	
Net Interest Income	3.28	3.29	0.01
Noninterest Income	0.53	0.50	-0.03
Noninterest Expense	2.75	2.72	-0.03
Provision Expense	0.05	0.07	0.02
Security Gains & Losses	0.14	0.10	-0.04
Income Taxes	0.41	0.38	-0.03
Net Income (ROA)	0.75	0.72	-0.03
Net Interest Margin (NIM)	3.52	3.53	0.01

Note: Aggregate data for institutions with assets <\$1 billion. Excludes specialty institutions and de novos.
Source: FDIC

¹Cynthia Angell and Norman Williams, FDIC FYI Revisited: "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html. A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.

²Insured institutions with assets of less than \$1 billion, excluding institutions less than three years old and specialty institutions.

Massachusetts at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.0%	-0.9%	-2.1%	-3.1%	2.4%
Manufacturing (10%)	0.0%	-5.9%	-7.1%	-11.9%	0.4%
Other (non-manufacturing) Goods-Producing (4%)	5.2%	-0.6%	-3.2%	2.6%	10.3%
Private Service-Producing (73%)	1.1%	0.0%	-1.1%	-2.5%	2.6%
Government (13%)	-0.2%	-2.1%	-3.0%	0.2%	1.6%
Unemployment Rate (% of labor force)	4.9	5.5	5.8	5.0	2.9
Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	4.6%	0.7%	-0.8%	6.3%
Single-Family Home Permits	-3.9%	24.4%	-20.6%	7.3%	-15.1%
Multifamily Building Permits	106.8%	10.7%	42.1%	-28.5%	26.2%
Existing Home Sales	9.9%	5.7%	-8.1%	20.3%	-8.2%
Home Price Index	11.6%	9.8%	11.2%	11.8%	12.7%
Bankruptcy Filings per 1000 people (quarterly level)	0.72	0.70	0.70	0.67	0.74

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	198	207	214	219	227
Total Assets (in millions)	223,820	217,301	197,467	180,405	173,375
New Institutions (# < 3 years)	1	2	3	2	3
Subchapter S Institutions	2	1	0	0	0
Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.57	0.72	0.91	0.81	0.89
ALLL/Total Loans (median %)	0.93	1.00	1.01	1.00	0.98
ALLL/Noncurrent Loans (median multiple)	5.89	4.51	4.79	4.50	4.33
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.01	0.00
Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.36	9.37	9.08	9.20	9.46
Return on Assets (median %)	0.75	0.80	0.78	0.84	0.81
Pretax Return on Assets (median %)	1.15	1.23	1.27	1.27	1.24
Net Interest Margin (median %)	3.77	3.76	3.74	3.75	3.73
Yield on Earning Assets (median %)	6.27	6.27	6.46	6.66	6.89
Cost of Funding Earning Assets (median %)	2.53	2.55	2.71	2.91	3.15
Provisions to Avg. Assets (median %)	0.04	0.04	0.05	0.04	0.05
Noninterest Income to Avg. Assets (median %)	0.40	0.41	0.45	0.41	0.41
Overhead to Avg. Assets (median %)	2.75	2.76	2.73	2.71	2.73
Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	65.4	61.2	59.8	62.4	64.5
Noncore Funding to Assets (median %)	21.0	17.8	16.8	16.7	16.0
Long-term Assets to Assets (median %, call filers)	31.5	30.5	24.3	24.2	24.8
Brokered Deposits (number of institutions)	29	24	19	12	15
Brokered Deposits to Assets (median % for those above)	2.2	1.8	1.4	1.2	1.0
Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	20.6	21.1	19.3	19.2	18.6
Commercial Real Estate	150.7	152.9	143.7	136.3	125.1
Construction & Development	30.9	26.6	23.0	23.8	18.1
Multifamily Residential Real Estate	14.8	11.1	10.8	10.7	10.6
Nonresidential Real Estate	90.0	84.3	79.7	84.0	78.6
Residential Real Estate	411.8	387.1	408.1	461.2	463.2
Consumer	6.9	8.0	10.3	13.2	16.9
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Boston-Cambridge-Quincy, MA-NH	160	141,784	< \$250 million	89 (44.9%)
Springfield, MA	24	9,973	\$250 million to \$1 billion	88 (44.4%)
Worcester, MA	39	9,919	\$1 billion to \$10 billion	18 (9.1%)
Barnstable Town, MA	12	5,652	> \$10 billion	3 (1.5%)
Pittsfield, MA	13	2,609		